

10-144
DEPARTMENT OF HEALTH AND HUMAN SERVICES

Chapter 30

**MAINE UNIFORM ACCOUNTING AND AUDITING
PRACTICES FOR COMMUNITY AGENCIES**

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MAAP RULES TABLE OF CONTENTS

- .01 APPLICABILITY OF ACCOUNTING & AUDIT REQUIREMENTS**
 - A. Purpose and applicability
 - B. Definitions

- .02 ACCOUNTING AND FINANCIAL MANAGEMENT STANDARDS FOR COMMUNITY AGENCIES**
 - A. Standards for Presentation of Financial Statements (Dollar Thresholds)
 - 1. Federal Standards
 - 2. Department Standards
 - B. Standards for Financial Statements
 - C. Standards for Schedule of Agreement Operations (SAO)
 - D. Standards for Agreement Settlement Form (ASF)
 - E. Standards for Retention of Financial and Administrative Records
 - F. Internal Control Structure Standards
 - G. Reporting Timetables

- .03 AUDIT REQUIREMENTS**
 - A. Audit Responsibilities of Community Agencies
 - 1. Federal Audit Requirement
 - 2. Department Audit Requirement
 - (a) Community Agency Annual Compilation
 - (b) Community Agency Annual Audit
 - (c) Community Agency Waiver of Audit - Annual Review
 - B. Department Audit Reporting Standards
 - 1. Report on Financial Statements
 - 2. Department Reports for Agreements
 - (a) Report on Schedule of Agreement Operations (Special Report)
 - (b) Report on Internal Control Structure
 - (c) Report on Compliance
 - (d) Auditors Findings and Questioned Costs
 - C. Audit Compliance Testing Standards
 - 1. Testing of Major Agreements and 50% Rule
 - 2. Materiality
 - 3. Compliance Criteria
 - 4. Auditor's Reports
 - D. Department Examinations

- .04 STANDARD ADMINISTRATIVE REQUIREMENTS AND COST PRINCIPLES FOR DEPARTMENT AGREEMENTS**
 - A. Adoption Federal OMB Circulars and Common Rule
 - 1. Applicability
 - 2. Administrative Requirements
 - 3. Cost Principles
 - 4. Compliance Requirements
 - B. Additional Administrative Requirements
 - 1. Program Budget
 - 2. Revisions of Budgets and Program Plans

3. Cost Sharing and Matching
4. Standards for Bonding
5. Financial Reporting Forms
6. Closeout Procedures
- C. Department Appeals, Resolutions and Sanctions
 1. Appeals Procedures
 2. Resolution of Appeals and Sanctions

.05 DEPARTMENT RESPONSIBILITIES

- A. Administrative Responsibilities
- B. Audit Oversight and Examination Responsibilities

APPENDIXES

I. Schedule of Agreement Operations (SAO)

II. Agreement Settlement Forms (ASF)

- A. ASF - Pro Forma - Cost Sharing (DHS, DMHMR)
- B. ASF - Actual - Cost Sharing (DHS, DMHMR)
- C. ASF - Actual - Fee For Service (DHS, DMHMR)
- D. ASF - Actual - Deficit Funding (DOT Sec. 9)
- E. ASF - Actual - Deficit Funding (DOT Sec. 18)

III. Agreement Compliance Section

IV. Agreement Compliance Requirements

V. Illustrative Auditor's Reports

- A. Report on Schedule of Agreement Operations
- B. Report on the Internal Control Structure Used in Administering Department Programs
- C. Report on Compliance With Requirements Applicable to Department Agreements

VI. Procedural Summaries

- A. Community Agency
- B. Independent Public Accountants
- C. Department Program Management
- D. Department Auditors

VII. List of Guidance Releases

.

SECTION .01

PURPOSE AND APPLICABILITY

A. PURPOSE AND APPLICABILITY

This document presents implementing regulations for the Maine Uniform Accounting and Auditing Practices Act for Community Agencies. The regulations establish accounting, audit and administrative requirements for Community Agencies (Definition 5) receiving financial assistance in the form of agreements from the Department (Def. 9).

The **accounting requirements** (Section .02) provide a framework of standards of accountability over Department agreement funds received by Community Agencies. The rules prescribe internal control structure standards and financial reporting standards for every Community Agency receiving agreement funding (Def. 2) from the Department. Total amounts of agreement funding will determine whether Community Agencies must submit entity-wide financial statements, agreement supplemental schedules and agreement settlement forms to the Department.

The **audit requirements** (Section .03) provide rules to assist Independent Public Accountants (Def. 20) in auditing Department agreements with Community Agencies. The rules define those Community Agencies which must obtain audits of entitywide financial statements and agreement supplemental schedules and compliance with applicable laws and regulations. This document recognizes the federal audit requirements of Office of Management and Budget Circular A-128 or A-133 as applicable to Community Agencies and builds upon those requirements.

1. These rules require all Community Agencies with total agreement funding of at least \$300,000 to have an entitywide financial audit done by a qualified Independent Public Accountant and to have a compliance audit of Schedules of Agreement Operations (SAO).
2. Community Agencies with at least \$25,000 but less than \$300,000 in total agreement funding, will submit compiled entitywide financial statement to the Department and will enter a “Risk Pool” (Def. 26). The Department will determine the need for a Department examination (Def. 10) based on “Risk Assessment”.
3. Community Agencies with less than \$25,000 in total agreement funding may be subject to Department examinations but are not required to submit entitywide financial statements and supplemental schedules.

The **administrative requirements** (Section .04) provide uniform rules for Department agreements with Community Agencies to include such areas as standard cost principles, program income, compliance requirements and agreement closeouts.

The **department responsibilities** (Section .05) defines the duties of department program and audit personnel in administering agreements under these rules.

The Commissioner (Def. 4) is responsible for the administration of these regulations.

B. DEFINITIONS

Unless the context clearly requires otherwise, the following terms shall have the following meanings.

1. **Agreement.** (*) “Agreement” means a legally binding written document between two or more parties, including such documents commonly referred to as accepted application, proposal, prospectus, contract, grant, joint or cooperative agreement, purchase of service or state aid.
2. **Agreement funds; Agreement funding.** (*) “Agreement Funds” or “agreement funding” means all agreement funds received by the Community Agency from the Department. It includes state and federal pass-through funds.
3. **Commissioner.** (*) “Commissioner” means the Commissioner of the Department of Health and Human Services.
4. **Community Agency.** (*) “Community Agency” means any public or private nonprofit organization; or firm, individual, partnership or business corporation operated for profit, which:
 - (a) Operates a social service program at the community level; and
 - (b) Receives public funds, either directly or indirectly, from one or more state departments or agencies; and
 - (c) Is not an administrative unit of the federal government or state government; and
 - (d) Is not exclusively a health care facility within the meaning of Title 22 M.R.S.A., Section 382, Subsection 6.
5. **Community Agency fiscal year.** “Community Agency fiscal year” means the fiscal year of a Community Agency commencing on or after July 1, 1996.
6. **Compilation of financial statements.** “Compilation of financial statements” means presenting in the form of financial statements information which is the representation of management without the accountant undertaking to express any assurance on the statements.
7. **Contracting state entity.** “Contracting state entity” means the Department which is the signator and responsible other party to the agreement with the Community Agency.
8. **Department.** “Department” means the Department of Health and Human Services, as well as other departments and agencies of state government approved for inclusion in this chapter by the commissioner. As of July 1, 1996 the Department of Transportation was approved for inclusion in this chapter by the commissioner.

9. **Department Examination.** (*) “Department Examination” means actions determined to be necessary by the department’s audit division, including, but not limited to, analyses and or testing of reported agreement balances and transactions, provisions of internal control systems and compliance with rules. Examinations conducted by the department may be of a limited scope basis and need not be done in accordance with government auditing standards.
10. **Department review.** (*) “Department review” means a review by the department of the Community Agency’s submitted annual financial statement report. Review may include desk and or quality control reviews or such other reviews as the department may establish by rule. Reviews are done for the purpose of accepting or rejecting the audit submission for federal and state department purposes or for the purpose of financially closing out the agreements for the department.
11. **Dollar threshold.** (*) “Dollar threshold” means a funding limit which determines how a Community Agency will be held accountable for agreement receipts of state and federal funds from the Department. This term governs the Community Agency’s annual reporting requirements for agreement receipts and it is measured on an entitywide basis based on the Community Agency fiscal year.
12. **Entity-wide financial reporting.** (*) “Entity-wide financial reporting” means financial statements and agreement supplemental schedules of a Community Agency prepared based on its fiscal year. At a minimum, the supplemental schedules of the agreements must identify opening and ending balances and receipts and disbursements for each agreement.
13. **Expenditures.** “Expenditures” means all costs presented on the basis of accounting prescribed in the agreement and capital items such as equipment purchases, building acquisitions, additions to reserves and similar items of cost as provided for in the agreement.
14. **Federal Audit.** (*) “Federal Audit” means an audit made pursuant to the federal Office of Management and Budget Circulars A-128 or A-133 or any subsequent revisions to these circulars. The federal audit must be conducted by qualified independent public accountants.
15. **Federal funds.** (*) “Federal funds” means all federal funds received by the Community Agency and not just those agreements received from the Department. It includes federal direct, indirect and pass-through funds from all sources.
16. **Federal pass-through.** “Federal pass-through” means those funds received by a community agency from the Department and identified in the agreement as federal funds.
17. **Generally accepted accounting principles.** (*) “Generally accepted accounting principles” means uniform minimum standards and guidelines for financial accounting and reporting ordinarily employed by skilled accountants and agreed upon by authoritative practitioners of recognized professional standing, such as the American Institute of Certified Public Accountants and other recognized professional bodies.

18. **Government auditing standards.** (*) “Government auditing standards” means auditing standards as promulgated by the Comptroller General of the United States.
19. **Independent public accountant.** (*) “Independent public accountant” means a person who complies with government auditing standards and who is one of the following:
 - (a) A licensed certified public accountant or person working for a licensed certified public accounting firm; or
 - (b) A public accountant licensed on or before December 31, 1970, or a person working for a public accounting firm licensed on or before December 31, 1970.
20. **Major agreement** “Major agreement” means an agreement with revenues of \$100,000 or more within a Community Agency fiscal year.
21. **Nonparticipating department.** (*) “Nonparticipating department” means a department or division of state government other than one defined as a department in this section that has not been approved for inclusion in this chapter by the commissioner.
22. **Nonprofit organization.** (*) “Nonprofit organization” means any agency, institution or organization that consists of or is owned and operated by one or more corporations or associations no part of the net earnings of which inures, or may lawfully inure, to the benefit of any private shareholder or individual.
23. **Public.** (*) “Public” means a municipal, county or other governmental body that is a political subdivision within the state.
24. **Revenues.** “Revenues” means asset inflows to an agreement presented on the accrual basis except for deferred revenues which should not be recognized.
25. **Risk pool.** (*) “Risk pool” means utilizing and assessing risk factors for determining the need for an examination of an agreement. Such risk factors may include the value of the agreement and prior and current Community Agency historical profile.
26. **Social service.** (*) “Social service” means any social services program funded in whole or in part through an agreement issued by the Department. Medicaid funding is excluded unless specifically identified as a social service program in an agreement award. (Note 1)
27. **State funds.** “State funds” means those state funds received by a Community Agency directly from a state department, bureau, division or agency that do not represent federal pass-through funds.

(*) - Definitions in statute.

Note 1 - “Social services” includes, but is not limited to social, correctional, legal, health, medical, mental health, mental retardation, rehabilitation, substance abuse, transportation services, programs for children, juveniles, teens and adults, families and the elderly.

SECTION .02

ACCOUNTING AND FINANCIAL MANAGEMENT STANDARDS FOR COMMUNITY AGENCIES

SUMMARY: To outline minimum standards for the presentation of financial statements and required supplemental schedules, the relationship between supplemental schedules and departmental reports, dollar thresholds for presentation of financial statements, internal control structure standards, record retention standards, and timetables for reporting.

A. STANDARDS FOR PRESENTATION OF FINANCIAL STATEMENTS (DOLLAR THRESHOLDS)

Responsibility for financial statements - Community Agencies (Def. 5) are required to submit annual financial statements to each funding Department (Def. 9) according to the dollar thresholds based on revenues from agreement funding (Def. 2). Revenues from agreement funding are measured by the activity related to the agreement. This activity requires the Community Agency to comply with laws, regulations, and the provisions of the agreement(s).

1. Federal Standards

If the Community Agency is required to have a Single Audit of financial statements in accordance with OMB Circulars A-128 or A-133, that audit should be conducted and reported in accordance with those standards and should include all federal awards which pass-through the Department. That audit will satisfy the entity-wide financial audit requirement of these rules.

If the Community Agency can satisfy its federal audit requirement through a program-specific audit and its federal funds are the only amounts awarded within its State agreements, that audit will satisfy the audit requirement of these rules. The Schedule of Federal Awards in this case should specifically reference the Department agreement number for the federal pass-through funds. The SAO described in Part C of this section will also have to be reported upon by the IPA. The Agreement Settlement Form (ASF) standards of Part D of this section still apply.

2. Department Standards

(a) No Entity-wide Financial Statements

If a Community Agency has less than \$25,000 of total revenues from agreement funding (state and federal pass-through) from the Department, no entity-wide financial statements are required. The Community Agency must report to the Department in accordance with the terms of each agreement and the Department reserves the right to perform supplemental examinations of agreements as demonstrated to be necessary.

(b) TIER 1 - Compiled Financial Statements

If a Community Agency has at least \$25,000 and less than \$300,000 in total revenues from agreement funding (state and federal pass-through) from the Department, they must at a minimum have an entity-wide compilation of their financial statements and supplemental SAO's prepared by a qualified Independent Public Accountant (IPA).

Option for Tier 2 Audit - A Community Agency within Tier 1 may opt to follow the rules for audits and reporting under Tier 2 (following sections). The Department must be informed of the use of this option prior to the end of the Community Agency fiscal year.

(c) TIER 2 - Audited Financial Statements

If a Community Agency has \$300,000 or greater in total revenues from agreement funding (state and federal pass-through) from the Department, they must at a minimum have an entity-wide audit of their financial statements and a compliance audit of the supplemental SAO(s) prepared by a qualified Independent Public Accountant (IPA) in accordance with Section .03 of these rules.

Special Circumstances for Review - A Community Agency within Tier 2 may request the Department to allow a review of entity-wide financial statements by an IPA rather than an audit. A review of the supplemental SAO may not be granted; those schedules must be audited for Tier 2 organizations. The request to the Department must be made before the end of the Community Agency fiscal year. Tier 2 organizations must receive the express written consent of the Department for a review of financial statements to be acceptable.

B. STANDARDS FOR FINANCIAL STATEMENTS

1. **Responsibilities for Financial Statements** The financial statements are the representation of the Community Agency. It is the responsibility of the governing body of the Community Agency to assure the statements are completed in accordance with these standards.
2. **Submission of Financial Statements** The Community Agency must submit its financial statements and, as applicable, independent accountant's or auditor's reports thereon to the Department in accordance with the requirements of Section .02 A of these rules.
3. **Presentation of Financial Statements** Financial statements must be prepared annually. The basic financial statements shall consist of those statements and disclosures required by generally accepted accounting principles for the Community Agency.
 - (a) The financial statements of a Community Agency must be presented on an entity- wide basis in accordance with generally accepted accounting principles.

- (b) The financial statements must be accompanied by the supplemental schedule(s) described in the following section.

C. STANDARDS FOR SCHEDULE OF AGREEMENT OPERATIONS (SAO)

The Community Agency must prepare certain required schedules as additional information to accompany the annual financial statements.

1. **Purpose** - To provide the Department with detailed information on the financial activities and status of each agreement including opening and ending balances.
2. **Required format - See Appendix I.**
 - (a) A separate presentation is required for each agreement identified by state department, bureau, agreement number and term.
 - (b) The method of agreement settlement referenced in Compliance Requirements Rider of the contract will determine the type and format of the SAO. Cost-settled and non-cost-settled formats are different.
 - (c) Revenues, expenditures and unexpended amounts from the SAO are the basis of the final settlement made for the agreement.
 - (d) Categories of revenues and expenditures presented on the SAO should match those listed in the agreement budget(s).
 - (e) If the agreement is not cost-based, the SAO should be prepared with the presentation of the relevant measurement of the agreement activity (i.e. units) based on actual experience for the Community Agency fiscal year.
3. **Accounting method** - the information should be presented consistent to the budget or plan of operations. Generally accepted accounting principles should be followed except to the extent another method is specified in the agreement
4. **Stub periods** - an agreement may have a term extending through the Community Agency fiscal year end. the portion occurring during the Community Agency's fiscal year is called a stub period. The information for stub periods for each agreement must be presented.
5. **Major or Non-Major Program Status** - each agreement's status as a major or non-major program for audit purposes must be presented.
6. **Reconciliation** - the SAO must be directly reconcilable to the financial records of the Community Agency. Worksheets or other documents must be in evidence at the Community Agency to support the reconciliation.

D. STANDARDS FOR AGREEMENT SETTLEMENT FORMS (ASF)

The Community Agency is responsible for the preparation of Department agreement settlement forms (ASF) for each of its agreements and to submit them within the time period set forth in the agreement

1. **Purpose** - to provide the funding Department with final cost determination and cost sharing amounts or performance activity settlement for the full term of agreement operations in accordance with Department standards.
2. **Required Format** - See Appendix II

The form and method of agreement settlement referenced in the agreement Contract Compliance Rider will be used to determine the final settlement.

3. **Compilation of Forms** - on an annual basis, all the ASF's for agreements ending within the fiscal year of the Community Agency must be compiled and reported on by the Community Agency's independent public accountant. The accountant's compilation report and the related ASF(s) must accompany the annual financial statements and SAO's submitted by the Community Agency to the Department.
4. **Reconciliation of ASF to SAO** - the amounts reported to the Department on the ASF must be consistent to the total of the amounts reported on the SAO(s) for each agreement.

E. STANDARDS FOR RETENTION OF FINANCIAL AND ADMINISTRATIVE RECORDS

1. **Audited agreements** - agreement operations records for agreements audited under these rules must be retained for a period of three (3) years following the later of , (a) submission of the audit or, (b) upon resolution of all findings with the following exception: If any litigation, claim or supplemental audit is started before the expiration of the 3-year period, the records must be retained until all litigation, claims or audit findings involving the agreement have been resolved.
2. **Agreements not audited** - if not audited, agreement operations records must be retained for a period of five (5) years following termination or expiration of the agreement.

F. INTERNAL CONTROL STRUCTURE STANDARDS

Community Agencies shall establish and maintain a structure of policies and procedures designed to achieve the organization's goals and objectives. The Community Agency must be able to demonstrate that a structure is in place which, at a minimum:

1. Provides reasonable assurance that programs are managed in compliance with laws, regulations, and the provisions of the agreement that could have a material effect on each of its State agreements;

2. Provides reasonable assurance that transactions are executed in compliance with laws, regulation and the provisions of the agreement that could have a direct and material effect on the agreement;
3. Provides reasonable assurance that transactions are properly recorded and accounted for to:
 - (a) permit the preparation of reliable financial statements and Department reports,
 - (b) maintain accountability over assets, and
 - (c) demonstrate compliance with applicable laws and regulations; and
4. Provides that funds, property and other assets are safeguarded against loss from unauthorized use or disposition.

G. REPORTING TIMETABLES

Community Agencies will report in accordance with the requirements of each agreement. Annual financial statements and required supplemental schedules and reports by IPA's will be completed and submitted to the Department as follows:

Tier 1: No later than four (4) months after the fiscal year end of the Community Agency.

Tier 2: No later than nine (9) months after the fiscal year end of the Community Agency.

SECTION .03

AUDIT REQUIREMENTS

SUMMARY: This section presents the guidance to Community Agencies and Independent Public Accountants (IPA's) for audits of Community Agencies under these rules and to Department audit personnel for Department examinations of Community Agency agreements.

A. AUDIT RESPONSIBILITIES OF COMMUNITY AGENCIES

Community Agencies and IPA's must understand the requirements of both federal and Department audits requirements and they are as follows:

1. Federal Audit Requirement:

Community Agencies are responsible for obtaining audits that satisfy federal audit requirements for federal funds that pass-through the Department. All federal audits (A-128 and A-133) for Community Agencies will be performed by qualified Independent Public Accountants (IPA). Department auditors will be responsible for providing the necessary oversight of these audits to assure adequate coverage of pass-through federal awards to Community Agencies.

If the Community Agency can satisfy its federal audit requirement through a program-specific audit and its federal funds are the only agreement amounts awarded by the Department, that audit will satisfy the audit requirement of these rules. The Schedule of Federal Awards in this case should specifically reference the Department agreement number for the federal pass-through funds.

2. Department Audit Requirement:

The Community Agency will be required to have annual audits and compilations of Department agreements performed as follows:

(a) Community Agency annual compilation

Community Agencies within Tier 1 (Sec. .02 A(2)(b)) are required to have their entity- wide financial statements and supplemental schedules compiled by a qualified IPA.

The IPA will compile the following items and issue an accountant's compilation report thereon:

- (i) Entity-wide financial statements with full disclosure.
- (ii) Schedule of Agreement Operations (SAO).
- (iii) Agreement Settlement Forms (ASF).

These Community Agencies will enter a Risk Pool (Def. 26). The Community Agencies' annual entity-wide compilation reports will be reviewed by the Department who will determine the need for additional procedures (including field examinations) based on an assessment of risk.

(b) Community Agency annual audit by an IPA

All Community Agencies within Tier 2 (Section .02 A(2)(c)) (or within Tier 1 but opting for a Tier 2 audit) are required to have a qualified Independent Public Accountant (IPA) satisfy the Department's financial and compliance audit and reporting requirement. The Department will be responsible for providing the oversight of the Community Agency report submission.

- (i) The IPA will audit the entity-wide financial statements in accordance with generally accepted auditing standards and issue a report thereon.
- (ii) The IPA will perform a financial related audit in accordance with Government Auditing Standards of the supplemental Schedule of Agreement Operations (SAO) and issue a Special Report on the SAO, a Report on Internal Control Structure for State Agreements, and a Report on Compliance for State Agreements.
- (iii) The IPA will compile the Agreement Settlement Forms (ASF) as prepared by the Community Agency and issue a compilation report thereon.

The IPA shall make audit working papers available upon request to the Department and shall cooperate with the Department in the conduct of Quality Control Reviews of an engagement made under these rules.

c) Community Agency waiver of audit - annual review by an IPA

Community Agencies within Tier 2 (Sec. .02 C.) which apply to the Department and receive express written permission may have an IPA perform a review rather than an audit of the annual financial statements. In this instance the IPA must still perform compliance audits of the SAO's and report upon them in accordance with this rule.

- (i) The IPA will review the entity-wide financial statements and issue an accountant's review report thereon.
- (ii) The IPA will perform a financial related audit in accordance with Government Auditing Standards of the supplemental Schedule of Agreement Operations (SAO) and issue a Special Report on the SAO, a Report on Internal Control Structure for State Agreements, and a Report on Compliance for State Agreements.

- (iii) The IPA will compile the Agreement Settlement Forms (ASF) as prepared by the Community Agency and issue a compilation report thereon.

The IPA shall make audit working papers available upon request to the Department and shall cooperate with the Department in the conduct of Quality Control Reviews of an engagement made under these rules.

B. DEPARTMENT AUDIT REPORTING STANDARDS

The Independent Public Accountant will issue the following reports as a result of audits of Community Agencies in accordance with these rules. The Report on Financial Statements below will not be additionally required if the entity-wide audit requirement has been met by an audit in accordance with federal requirements (see Sec. A(1) above).

1. Report on Financial Statements

The IPA will issue an auditor's report on the entity-wide financial statements of the Community Agency for the fiscal year. The audit should be conducted in accordance with generally accepted auditing standards (GAAS).

2. Department Reports for Agreements

The following reports must be submitted for audits of Community Agency agreements by the IPA. The first report (2a) is a Special Report. All reports are based on a financial-related audit in accordance with Government Auditing Standards (Yellow Book).

(a) Report on Schedule of Agreement Operations (Special Report)

The IPA will issue a "Report on Schedule(s) of Agreement Operations". This is a special purpose report and is illustrated in Appendix V.

(b) Report on Internal Control Structure

The IPA will issue a "Report on the Internal Control Structure Used in Administering Department Programs". This report is modeled after the similar federal report. The report is directed to those agreements presented on the Schedule of Agreement Operations. An illustration of this report is presented in Appendix V.

(c) Report on Compliance

The IPA will issue a "Report on Maine Compliance Requirements Applicable to Department Agreements". This report is directed primarily to Major agreements (Def. 21) and, may include transactions tested for non-major agreements to meet the 50% requirement of C.1. below. An illustration of this report is presented in Appendix V.

(d) **Auditor's Findings and Questioned Costs**

- (i) Current year items - the IPA will report on those items of noncompliance and reportable conditions for the current fiscal year that are material to each agreement.
- (ii) Prior year items - the IPA will include a presentation of the status of findings and questioned costs from prior years.

C. AUDIT COMPLIANCE TESTING STANDARDS

This standard applies to independent public accountants (IPA's) in the performance of audits of Community Agencies in Tier 2 and those in Tier 1 opting for audits under this rule.

1. Testing of Major agreements and 50% rule

- (a) All Major agreements must be tested for compliance and internal control structure.
- (b) If the total of all Major agreements selected in this section amounts to 50% or more of the total Department revenues for the Community Agency, no further selections of agreements for compliance testing are necessary. If, however, the total is less than 50% of total Department revenues, additional non-major agreements must be selected for compliance testing.
- (c) Additional non-major agreements to be compliance tested are selected beginning with that agreement with the largest amount of Department revenues and selecting in sequence, agreements with the next largest amounts of revenues until the 50% level is reached. Non-major agreements so selected will be considered Major agreements for audit testing.
- (d) The 50% minimum standard may be waived when total Department revenues are at a level so low as to make a compliance audit impractical. The minimum amount for a Major agreement however, may not be waived. Waivers must be obtained in writing from the Department.

2. Materiality - Materiality for compliance testing is based at the agreement budget level.

3. Compliance Criteria - The compliance criteria to be tested are those specified in the agreement. Maine Compliance Requirements compliance criteria to be used in administering agreements are presented in Appendix IV.

4. Auditor's Reports - The auditor's report on compliance must encompass each agreement tested in accordance with the standards of Section .03 C.1. above.

D. DEPARTMENT EXAMINATIONS

The Department may require or perform Department examinations (Def. 10) of Community Agencies under the following circumstances:

1. As a result of the Risk Pool process.
2. At the request of the Community Agency;
3. At the request of a State department as a result of an audit report or findings which indicate material weaknesses in internal controls, lack of compliance with agreement conditions, or other matters which indicate lack of controls over agreement funds or assets;
4. As a result of desk reviews or quality control review of audit reports that substantial inadequacies exist with the auditor's report which indicate lack of compliance with audit standards. However, inadequacies in entity-wide audit reports are expected to be resolved by the Community Agency in conjunction with its Independent Public Accountant;
5. As a result of State recognition of potential irregularities or illegal acts; or
6. At the request of a department for a limited-purpose review not covered in the scope of a financial and compliance audit.

Field visits to the Community Agency to perform Department examinations must be coordinated among the departmental audit groups as a single event of predetermined scope and duration in order to achieve economy and efficiency.

SECTION .04

STANDARD ADMINISTRATIVE REQUIREMENTS AND COST PRINCIPLES FOR DEPARTMENT AGREEMENTS

SUMMARY: This section establishes the adoption of OMB Circulars and other federal guidance applicable to the agreements between Community Agencies and the Department. Additions to administrative requirements are presented. An appeals procedure is outlined for the appeals and resolution of financial issues arising from audits and Department examinations.

A. Adoption of Federal OMB Circulars and Common Rule

Administrative requirements and cost principles applicable to federal funds are adopted as being applicable to State funded agreements.

1. Applicability

The Department will apply administrative requirements and cost principles to the following entities:

(a) Nonprofit Entity

- (i) Office of Management and Budget (OMB) Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations" (A-110)
- (ii) Office of Management and Budget (OMB) Circular A-122, "Cost Principles for Non- Profit Organizations" (A-122).

(b) Educational Entity

- (i) Office of Management and Budget (OMB) Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations" (A-110)
- (ii) Office of Management and Budget (OMB) Circular A-21, "Cost Principles for Educational Institutions" (A-21).

(c) Public Entity

- (i) "Common Rule for Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (Common Rule)
- (ii) Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State and Local Governments" (A-87).

(d) **For-Profit Entity**

- (i) “Common Rule for Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments” (Common Rule)
- (ii) Office of Management and Budget (OMB) Circular A-87, “Cost Principles for State and Local Governments” (A-87).

2. **Administrative Requirements**

Circular A-110 and Common Rule contain administrative requirements governing federal awards to most community agencies, including federal pass-through funds from the Department.

A-110, Subpart C and Common Rule, Subpart C present requirements in the following areas:

- Financial and Program Management
- Property Standards
- Procurement Standards
- Reports and Records
- Termination and Enforcement

These establish compliance requirements, as applicable, to Department agreements. In applying these requirements to Department agreements, the term “Department” should be substituted for “Federal” and “Federal awarding agency” within the text.

These provisions as modified by the requirements listed in part B. below, shall govern state agreements with community agencies.

3. **Cost Principles**

The provisions of A-122, A-87 and A-21 shall apply to Department agreements with community agencies. Any additions to the provisions of these circulars for a particular Department agreement shall be specified in the agreement.

4. **Compliance requirements**

In addition to the administrative requirements and cost principles detailed above, the Department has identified the following areas of agreement operations for special consideration:

- Budgeting
- Types of Service Allowed or Unallowed
- Eligibility
- Matching
- Reporting
- Subrecipient Monitoring
- Agreement Settlement
- Special Provisions

These areas of compliance, as applicable, must be specifically referenced in each agreement with the Community Agency. See Appendix III.

B. Additional Administrative Requirements

Community agencies receiving agreement funding shall follow the more restrictive of the OMB Circular A-110 or Common Rule requirements or the requirements listed below.

1. **Program Budget**

The program budget of agreements between the Department and Community Agency shall include all revenue and expenses.

(a) Revenues shall include:

- (I) Agreement funds identified by state and federal source
- (ii) Program income, as defined in OMB Circular A-110, Subpart A 2, or the Common Rule, subpart c.25
- (iii) Client contributions and other donations designated by the donor for the program, and
- (iv) Other available income committed to the program (e.g. United Way, Community Agency, unrestricted funds, etc.)

- (b) The program budget of agreements between the Department and the Community Agency shall include all revenues and program expenses. The agreement shall also include a pro forma Agreement Settlement Form illustrating the adjustments and treatment of those

revenues and expenses at closeout. The closeout procedure will provide for adjustment, offset, or elimination of expenses, as illustrated in the pro forma ASF included in the agreement, and if necessary, as further required by the applicable administrative requirements of Section .04 A of these rules.

2. **Revisions of Budgets and Program Plans**

The community agency shall request prior written approval for budget revisions whenever one or more of the following conditions occur:

- (a) The total expenses in any category (personnel, equipment, subcontract, all other) exceed the budgeted amount for that category by at least ten percent or \$1,000, whichever is greater,
- (b) Total program income differs from the budgeted amount by at least ten percent or \$5,000, whichever is greater,
- (c) Non-budgeted equipment items are substituted for specific budgeted equipment items (equipment is as defined in the federal circulars), and
- (d) There are non budgeted line items in excess of \$1,000.

The community agency may request a budget revision at any time. If approval is not granted, costs that exceed the above thresholds shall be deemed questioned costs.

3. **Cost Sharing and Matching**

The following cost sharing and matching provisions apply to Department agreements with Community Agencies:

- (a) Community agencies entering into Department agreements should follow the cost sharing and matching methodology described in the agreement and as reflected in the pro forma Agreement Settlement Form included in the agreement document. The pro forma ASF should clearly identify the steps necessary to reach an accurate settlement.
- (b) All categories of revenue contained in the agreement budget shall be considered available for cost sharing unless their exclusion is specifically noted in the pro forma ASF. (The pro forma example presented in Appendix IIB is only for guidance.)
- (c) Other available income shall be specifically identified as such in the agreement budget. These amounts represent a **commitment** by the community agency to the program. The committed amounts of “other available income” shall be reported in the schedules described in the “Closeout Procedures” section of these requirements.
- (d) When developing a budget and cost sharing methodology for an agreement, the Department and Community Agency shall consider the restrictions on use of funds imposed by all revenue sources listed in the program budget.

- (e) When non-allowable costs (e.g. bad debts, interest, etc.) are charged to a program they will be accounted for in the cost sharing process as provided in the agreement budget. Non-allowable costs must be covered by specifically designated non federal revenue.
- (f) Indirect cost rates and allocation methods which conform to the requirements of A-122, A-87 or A-21 as applicable will be accepted by the Department. Limitations of indirect costs specified in an agreement will be accounted for through the agreed-upon cost settlement method.

4. Standards for Bonding

The community agency shall obtain and maintain at all times during the agreement period a fidelity bond covering the activities of all employees who handle community agency funds in the amount of 20 % of their gross annual budget or the total amount of the grant whichever is less.

5. Financial reporting forms

The forms listed in OMB Circular A-110, Subpart C.52, or Common Rule, Subpart C.41 do not apply to state agreements with Community Agencies. The forms to be used to report to the Department and at what frequency will be specified by the agreement.

6. Closeout Procedures

Each Community Agency with Department agreements shall submit to the applicable Audit Division, the independent auditor's or accountant's report, the related financial statements and Schedule of Agreement Operations (SAO) and Agreement Settlement Form (ASF) required by Sections .02 B, C and D of these rules.

The applicable Audit Division shall review the Community Agency submission and using this information, the Audit Division shall determine the need for Department examinations for Tier 1 agencies and they shall perform desk and quality control reviews of Tier 2 Community Agencies. The audit division shall then prepare resolution summaries of both Tier 1 and 2 reports, which summarizes the revenue, allowable costs, and surplus or deficit of Department agreements ending within the Community Agency's fiscal year for agreement final financial settlement and closeout purposes.

IPA audits, Department examinations and Department resolution summaries of those reports are then communicated to the Community Agency and Department program management by the Audit Division.

C. Department Appeals, Resolutions and Sanctions

Upon receipt of the Department resolution summary (Section 04B6 and Section 05B), the Community Agency has sixty (60) days to either accept or appeal. Acceptance should include responses to recommendations and full payment of any balances due. Failure to comply within the allotted time may result in sanctions being applied by the Department.

The appeals of financial and other compliance issues between Community Agencies and the Department shall be governed by the following procedures.

1. Appeals Procedures

Step a - Director of Audit

A Community Agency may appeal, in writing, the findings of an IPA audit or a Department examination within sixty (60) days after receiving the report from the Department. The appeal letter must identify the issues being appealed and include the specific supporting documentation. It must be addressed to the Director of the Office of Audit.

The Director or the Director's designee will initiate a review of the audit appeal and will, as needed, consult with program management responsible for the affected agreements, Agreement Administrators, and other applicable and appropriate staff. If, upon initial review, the Director, and any other parties involved, agree with the position of the Community Agency, the Director may proceed to issue a decision.

If the appeal is not resolved after the initial review, the Director or the Director's designee will convene an informal review meeting. The informal review meeting will involve the Office of Audit, the Community Agency, program management responsible for the affected agreements, Agreement Administrators, and other applicable and appropriate staff.

The Director or the Director's designee will issue a written decision on the appeal and the full basis of the decision to the Community Agency no later than sixty (60) days following the receipt of the appeal letter, unless both parties agree to a timed extension. The letter may be co-signed by other DHHS staff as applicable.

Step b - Office of Administrative Hearings

If the Community Agency wishes to proceed further in its appeal, it may appeal to the Office of Administrative Hearings within sixty (60) days of receiving the decision from the Director of the Office of Audit. The issue(s) on appeal will be limited to what was raised at the Step a appeal. The hearing will be a de novo Order of Reference appeal hearing. The Hearing Officer will issue a Recommended Decision with the Commissioner issuing a Final Decision.

Step c - Judicial appeal

The Commissioner's decision is the final Department appeals action. Any further appeal is to the Maine Superior Court pursuant to Maine Rules of Civil Procedure, Rule 80C and 5 M.R.S.A. §11001.

2. Resolution of Appeals and Sanctions

When the Community Agency chooses not to further pursue its appeal, the process has been exhausted or the Department and Community Agency reach agreement, a letter will be sent by the Department confirming the terms of the settlement.

As required by the terms of the settlement, the Community Agency must within thirty (30) days of receipt of the letter, as applicable;

- 1) make full payment of any balance due;
- 2) make arrangement for a repayment plan acceptable to the Department
- 3) submit a corrective action plan acceptable to the Department regarding any non-financial compliance issues.

If there are no future contracts, the Department may also turn the matter over to the Attorney General or to a collections agency.

SECTION .05

DEPARTMENT RESPONSIBILITIES

SUMMARY: The Department shall establish procedures for administering agreements with Community Agencies in accordance with MAAP and the regulations thereunder. Specific Department responsibilities shall, at a minimum, include the following:

A. ADMINISTRATIVE RESPONSIBILITIES

1. To prepare requests for proposals for agreements with Community Agencies.
2. To negotiate agreements with Community Agencies that contain all applicable accounting, and administrative requirements contained within these rules.
3. To assure each agreement between the Department and the Community Agency includes a Agreement Compliance Section and a pro forma Agreement Settlement Form illustrating the agreement cost settlement method. (See Appendix II.A for example)

(a) Agreement Compliance Section

Each agreement shall contain a standard section which presents the related agreement compliance testing requirements. See Appendix III. Each area of compliance indicated as applicable shall be cross-referenced to the agreement. The compliance areas and suggested audit procedures are presented in Appendix IV.

(b) Pro Forma Agreement Settlement Form

Each agreement shall contain a pro forma Agreement Settlement Form (ASF) to illustrate the closeout method to be applied. Illustrative amounts should be filled in on the pro forma ASF to make it clear what eliminations and adjustments are required for cost settlement.

(c) Special Provisions

An agreement may present in the Agreement Compliance Section an applicable special compliance area in addition to the standard areas. Special compliance areas must have a measurable effect to the agreement. Any special compliance area must be identified and cross-referenced to the agreement. In addition, a separate page must be inserted in the agreement which specifies the compliance requirements and suggested audit procedures to be applied.

4. To provide technical advice to Community Agencies and their IPA's to assist them in understanding their responsibilities under the agreement.
5. To monitor agreement fiscal and program performance.
6. To resolve agreement balances resulting from audits and examinations.

7. To respond to Community Agency non-compliance findings and to apply sanctions when necessary (e.g. no financial statements or unacceptable statements)

B. AUDIT OVERSIGHT AND EXAMINATION RESPONSIBILITIES

Audit division personnel of the Department are responsible for the following:

1. To perform Department examinations of Community Agency records for receipt of agreement funds.
 2. To conduct desk reviews of audits of Community Agencies performed by Independent Public Accountants.
 3. To conduct quality control reviews of selected Independent Public Accountants' audits.
 4. To review Community Agency Agreement Settlement Forms (ASF) and to prepare resolution summaries to support agreement close out as necessary.
 5. To prepare resolution summaries or status reports of Tier 2 audits for program management within 270 days of receipt of the auditor's report.
 6. To establish an agreement register of Community Agencies and their agreements. At a minimum, the agreement register shall contain the following fields of information: community agency name, community agency address, community agency fiscal year, community agency fiscal year audit status, agreement number, agreement fiscal period, agreement funding agency, agreement amount, agreement related appropriation account numbers, and agreement related CFDA numbers.
 7. To assess risk for Department examinations associated with Tier I Community Agency financial statement submissions. At a minimum, such factors as Community Agency frequency of audit, past history, level of agreement funding, etc. will be considered.
 8. To provide the necessary training concerning the regulatory requirements of this Act.
 9. To provide technical advice and act as a liaison between all interested parties.
 10. To inform the Community Agency of any former non-participating Departments approved for inclusion in this chapter by the Commissioner.
 11. To respond to Community Agency appeals (IPA audit and Department examinations) in accordance with Section .04. Decisions from the Division of Audit are to be made based on MAAP statutory requirements and promulgated regulations. This may also include testimony at appeal hearings.
 12. To advise Department program management of Community Agencies materially not complying (no or unacceptable financial statements) with the MAAP annual financial statement requirement.
-

STATUTORY AUTHORITY: 5 MRSA c.148-C, sub-c. 1660-H.

EFFECTIVE DATE:

January 1, 1987

AMENDED:

July 1, 1989

REPEALED AND REPLACED:

December 28, 1996 - removed as 18-106 Chapter 1 in favor of this joint Chapter 30 with 14-191

AMENDED:

December 16, 2006 – absorbed joint chapter 14-191 Ch. 30, filings 2006-513 and 514

EMERGENCY RULE:

July 1, 2011

**Sample Community Agency
Schedule of Agreement Operations
For the Fiscal Year Ended September 30, 19X5**

Appendix I

Department:	DHHS	DHHS	DHHS	DHHS	DHHS	
Bureau/Agency	CDC	OCFS	CCFP	CBH	OSA	
Agreement Number:	#95-05	#K-8301	#4677	#3-16-16	#3-15-15	
Agreement Total:	\$180,000	\$48,000	open ended	\$140,000	\$180,000	
Agreement Term:	07-01X4 to 06-30-X5	10-01-X4 to 09-30-X5	10-01-X4 to 09-30-X5	07-01-X4 to 06-30-X5	07-01-X5 to 06-30-X6	
Basis of Settlement:	cost	cost	units/ admin	cost	cost	(Memo Only)
Status: (see footnotes)	FINAL (a)	FINAL (c)	FINAL (b)	FINAL (b)	INTERIM(b)	
						TOTALS
Revenues (1)						
Agreement - Federal	83,205	12,000	40,000	15,000	0	150,205
- State	51,000	36,000	0	20,000	45,000	152,000
Carry-in Prior Year (d)	0	3,200	0	0	0	3,200
Program Fees	68,057	11,222	0	42,698	4,217	126,194
Medicaid Fees	46,500	18,224	0	60,965	5,182	130,871
Restricted Contributions	4,500	0	0	1,000	0	5,500
Local Share	0	7,500	0	1,994	525	10,019
Total Revenue	253,262	88,146	40,000	141,657	54,924	577,989
Expenditures (1)						
Salaries						
Employee Benefits	125,244	58,252	3,600	99,801	22,894	309,791
Contracted Services	33,816	15,728	500	26,946	6,181	83,171
Travel - Local	50,725	4,775	-	3,215	9,825	68,540
Travel - Out of State	4,728	505	250	5,215	1,525	12,223
Supplies	1,977	--	-	924	-	2,901
Equipment Maint.	4,245	1,277	150	2,425	1,202	9,299
Equipment Purchase (e)	925	481	-	676	252	2,334
Bad debts	4,500	3,000	-	1,200	-	8,700
Interest	1,150	--	-	-	-	1,150
Other - Insurance	740	--	-	-	-	740
Occupancy (e)	1,115	588	-	1,003	377	3,083
Telephone	5,215	3,215	-	8,112	2,114	18,656
Allowable meals (units)	845	325	-	888	222	2,280
	-		35,500	-	-	35,500
Total Expenditures	235,225	88,146	40,000	150,405	44,592	558,368
NET ACTIVITIES	18,037	0	0	-8,748	10,332	
BEGINNING BALANCE	0	0	0	5,748	0	
ENDING BALANCE	18,037	0	0	0	10,332	
	(f)		(g)			

Memorandum:

- (1) Revenues and expenditures presented consistent to budget categories.
See Revenues and Expenditures definitions in Section .01.

Footnotes:

- (a) Major programs for auditing purposes
(b) Non-major program for auditing purposes.
(c) Non-major program treated as major program for auditing purposes
(d) Prior year carry-in budgeted and consistent to prior fiscal year.
Carry-in amount reclassified from Beginning Balance to Revenues.
(e) Occupancy adjusted to exclude depreciation on assets acquired with State/Federal awards and to include capital acquisition of equipment.
(f) See Schedule of Findings and Questioned Costs.
(g) Allowable costs = meals delivered times predetermined rate plus admin. costs.

Agreement Settlement Form (ASF) APPENDIX II.A Pro Forma

Community Agency:	Sample Community Agency
Fiscal Year End:	9-30-05
Funding Department:	DHHS
Agreement Number:	#95-05
Agreement Period:	7-1-04 to 6-30-05
Agreement Amount:	180,000

PART I Agreement Totals

		<u>Revenue</u>	<u>Expense</u>	<u>Balance</u>
1.	Per Agreement Budget	295,500	295,500	0
	<u>Agreement Adjustments</u>			
2.	Medicaid	(45,000)	(45,000)	0
3.	Restricted Contributions towards Equipment	(5,000)	(5,000)	0
4.				0
5.				0
6.				0
7.	Total Adjustments	<u>(50,000)</u>	<u>(50,000)</u>	<u>0</u>
8.	Totals Available for Cost Sharing	<u>245,500</u>	<u>245,500</u>	<u>0</u>

Part II Agreement Cost Sharing

	<u>Funding Source</u>	<u>Budget</u>	<u>Revenue</u>	<u>Expense</u>	<u>Balance</u>
9.	Agreement # 95-05	0.7332	180,000	180,000	0
10.	All Other	0.2668	65,500	65,500	0
11.	<u>Totals</u>	<u>100.00</u>	<u>245,500</u>	<u>245,500</u>	<u>0</u>

Notes to adjustments:

Line #2
Line #3
Line #4
Line #5
Line #6

Agreement Settlement Form (ASF) APPENDIX II.B Actual

Community Agency:	Sample Community Agency
Fiscal Year End:	9-30-05
Funding Department:	DHHS
Agreement Number:	#95-05
Agreement Period:	7-1-04 to 6-30-05
Agreement Amount:	180,000

PART I Agreement Totals

	<u>Revenue</u>	<u>Expense</u>	<u>Balance</u>
1. Prior Year Stub Period	58,245	62,500	(4,255)
2. Current year Stub Period	253,262	235,225	18,037
3. Adjustments			
4. Per Financial Statements - SAOs'	311,507	297,725	13,782
<u>Agreement Adjustments</u>			
5. Interest		(1,078)	1,078
6. Bad Debts		(1,575)	1,575
7. Medicaid	(62,000)	(62,000)	0
8. Available agreement amount	12,000		12,000
9. Restricted contributions towards equipment	(4,500)	(4,500)	0
10.			0
11.			0
12.			0
13. Total Adjustments	<u>(54,500)</u>	<u>(69,153)</u>	<u>14,653</u>
14. Totals Available for Cost Sharing	<u>257,007</u>	<u>228,572</u>	<u>28,435</u>

Part II Agreement Cost Sharing

	<u>Funding Source</u>	<u>Budget</u>	<u>Actual</u>	<u>Available Revenue</u>	<u>Allocated Expense</u>	<u>Balance</u>
15.	Agreement # 95-05	0.7332	0.7004	180,000	160,085	19,915
16.	All Other	0.2668	0.2996	77,007	68,487	8,520
17.						
18.	Totals	<u>100.00</u>	<u>100.00</u>	<u>257,007</u>	<u>228,572</u>	<u>28,435</u>

.Notes to adjustments:

Line #1	Per prior period community agency financial statements SAO
Line #5	Unallowed cost per circular A-122 Attachment B, cost principle #19
Line #6	Unallowable cost per Circular A-122 Attachment B, cost principles #2
Line #7	Per agreement budgeted proforma
Line #8	Agreement budgeted amount not received and available for cost sharing purposes only
Line # 9	Per agreement budgeted proforma

INSTRUCTIONS FOR AGREEMENT SETTLEMENT FORM (ASF) COST SHARING AGREEMENTS

PURPOSE: A departmental ASF form is to be used for cost settled agreements which purchase part or all of a Community Agency's program. Its purpose is to determine the agreement related expenses only. In order to complete this form, one needs to understand the terms of the negotiated agreement and the standard administrative requirements applicable to MAAP agreements.

PART I: Agreement totals

For line 1, include the prior year SAO presentation for the agreement. For line 2, include the current year SAO. Line 3 needs to be completed only if there are further workpaper adjustments (typically these are non GAAP) necessary leading to line 4, the total MAAP SAO presentation (plus any necessary workpaper adjustments). The MAAP SAO presentation is the starting point for the final ASF (cost sharing).

While not all inclusive, the following are among the most common examples of adjustments which could be made to revenues and expense amounts for cost sharing in Part I line 4 up to Part II.

- A. Eliminate negotiated agreement pro forma ASF revenues and related expenditures.
- B. Eliminate unallowable expenditures per applicable federal cost principles.
- C. Eliminate expenditures which are not in accordance with MAAP section .04 for "Revisions of budgets and program plans".
- D. Eliminate In Kind revenue and expenditures.
- E. Eliminate restricted revenue and related expenditures which purchases part of the total program.
- F. Include agreement available revenue (agreement award less agreement recognized revenue).
- G. Include all "other available revenue" per MAAP section .04 which represents a commitment of funds by the agency to the program.
- H. Include prior year carry forward balances.

Line 1 plus or minus all adjustments within Part 1 equals line 14 the totals available for Part II cost sharing.

PART II: Agreement cost sharing

The part I line 14 totals are posted to line 18 and they represent the total allowable and allocable expenses which can be cost shared to the agreement. The total expenses on line 18 are allocated to the agreement based upon agreement available revenue to the total available revenue.

Note to adjustments

Whenever possible the use of explanatory notes to line adjustments is suggested.

**Agreement Settlement Form
Fee for Service**

Appendix II C

Community Agency: Sample Community Agency
Fiscal Year End: 9-30-05
Funding Department: DHHS
Agreement Number: CCFP #4677
Agreement Period: 10-1-04 to 9-30-05
Agreement Amount:: open ended

	<u>Prior Year</u>	<u>Current Year</u>	<u>Total</u>
Meal Value	N/A	35,500	\$ 35,500
Lessor of:			
Admin. expense	N/A	4,500	4,500
Admin earnings	N/A	4,900	
30% admin limit	N/A	5,600	
Total			<u>\$ 40,000</u>

Notes:

The ASF should be prepared consistent to service reports submitted to the Department.

**D.O.T. SECTION 9
URBAN TRANSPORTATION PROGRAM
DEFICIT FUNDING**

Appendix II.D

Sample Community Agency
Fiscal Year Ending:

Total Operating Costs	\$
Less:	
Fares	\$ _____
Net Operating Deficit	\$ _____
Revenue	
Federal	\$
State	\$
Local	\$ _____
Total Revenues	\$ _____
Surplus/(Deficit)	\$ _____

Federal Participating Share

1. Amount of Non-Federal Funds Contributed:

State	\$	
Local	\$ _____	
Total Non-Fed		\$

2. 50% of the net Project Costs:

Federal Share @ 50%	\$
---------------------	----

**3. Operating Deficit After Adding Local Funds
But Before Adding UMTA Funds:**

Operating Costs	\$	
Less:	\$	
Fares	\$	
State	\$	
Local	\$ _____	
Deficit Before UMTA		\$

4. Maximum Amount of Grant

Federal Share Paid	\$
Participating Share (Steps 1-4)	\$ _____
Federal Over/(Under) Paid	\$ _____

State Participating Share

Max Authorized Amount	\$
State Share @ 50%	\$
State Share Paid	\$ _____
State Over (Under) Paid	\$ _____

Conclusion:

PURPOSE:

To determine whether the federal share of operating costs complies with federal requirements. Participating shares paid can be no greater than the smallest of the following:

1. The amount of non - federal funds contributed;
 2. 50% of the net project costs;
 3. The operating deficit after adding local funds but before adding UMTA funds, or;
 4. The maximum amount of the grant.
- State Funds from MDOT cannot exceed the amount authorized, and in no event exceed 50% of the eligible deficit.

D.O.T. SECTION 18 **Appendix II. E**

RURAL TRANSPORTATION PROGRAM
DEFICIT FUNDING

Sample Community Agency
Fiscal Year Ending:

	Operating	Admin	Capital	Total
Gross Expenditures	\$ _____	\$ _____	\$ _____	\$ _____
Less:				
Contra-Expenditures	\$ _____	\$ _____	\$ _____	\$ _____
Operating Revenue				\$ _____
Excess Unrestricted Fed	_____	_____	_____	\$ _____
	\$ _____	\$ _____	\$ _____	\$ _____
Total Deductions				
	\$ _____	\$ _____	\$ _____	\$ _____
Net Expenditures/Deficit				
	_____ %	_____ %	_____ %	
<u>Federal Share</u>	\$ _____	\$ _____	\$ _____	\$ _____
Maximum %	\$ _____	\$ _____	\$ _____	\$ _____
Amount Paid	\$ _____	\$ _____	\$ _____	\$ _____
Maximum Amount				
Over (Under) Maximum				
	_____ %	_____ %	_____ %	
<u>State Share</u>	\$ _____	\$ _____	\$ _____	\$ _____
Maximum %	\$ _____	\$ _____	\$ _____	\$ _____
Amount Paid	\$ _____	\$ _____	\$ _____	\$ _____
Maximum Amount				
Over (Under) Maximum				
	_____	_____	_____	\$ _____
	_____	_____	_____	\$ _____
<u>Summary:</u>				
Federal Over Paid	\$ _____	\$ _____	\$ _____	\$ _____
State Over Paid				
Total Over Paid				

AGREEMENT COMPLIANCE SECTION**Appendix III**

This section identifies compliance requirements that must be considered in audits of agreements between the Department and a Community Agency. Below is a summary of required compliance tests as well as sections within the agreement award relevant to such testing. Failure to comply with any of these areas could lead to material deficiencies.

_____ Review the **Federal** compliance requirements specific to the following CFDA identifiers:

CFDA # _____ CFDA # _____ CFDA # _____

and review all the State compliance requirements listed below that apply to Federal funds.

_____ Review the **State** compliance requirements in applicable areas specified below:

 X 1.) **INTERNAL CONTROL**

 X 2.) **STANDARD ADMINISTRATIVE PRACTICES**

A. OMB Circular A-110/Common Rule Financial and Program Management Property Standards Procurement Standards Reports and Records Termination and Enforcement	B. Department Additions Standards for Bonding Program Budget
--	--

 X 3.) **ALLOWABLE COSTS/COST PRINCIPLES**

___A-122 ___A-87 ___A-21

_____ 4.) **BUDGET COMPLIANCE**

_____ 5.) **TYPES OF SERVICE ALLOWED OR UNALLOWED**

Specific Detail on Agreement Page(s) _____

_____ 6.) **ELIGIBILITY**

Specific Detail on Agreement Page(s) _____

_____ 7.) **MATCHING REQUIREMENTS**

Specific Detail on Agreement Page(s) _____

_____ 8.) **REPORTING**

Specific Detail on Agreement Page(s) _____

_____ 9.) **SUBRECIPIENT MONITORING**

Specific Detail on Agreement Page(s) _____

 X 10.) **AGREEMENT SETTLEMENT: COST BASED TYPE** _____

UNIT BASED TYPE _____

OTHER TYPE _____

Specific Detail on Agreement Page(s) _____

_____ 11.) **SPECIAL PROVISIONS**

Specific Detail on Agreement Page(s) _____

A. _____

B. _____

Appendix IV

STATE OF MAINE AGREEMENT COMPLIANCE REQUIREMENTS

The following are compliance requirements for which failure to comply could have a material impact on an organization's financial claims submitted to the Department.

1. INTERNAL CONTROL

A. Compliance Requirement

Community agencies shall establish and maintain a structure of policies and procedures designed to achieve the organization's goals and objectives. The community agency must be able to demonstrate that a structure is in place which, at a minimum:

1. Provides reasonable assurance that programs are managed in compliance with laws, regulations, and the provisions of the agreement that could have a material effect on each of its State agreements.
2. Provides reasonable assurance that transactions are executed in compliance with laws, regulations and the provisions of the agreement that could have a direct and material effect on the agreement.
3. Provides reasonable assurance that transactions are properly recorded and accounted for to: a) permit the preparation of reliable financial statements and Department reports, b) maintain accountability over assets, and c) demonstrate compliance with applicable laws and regulations.
4. Provides that funds, property and other assets are safeguarded against loss from unauthorized use or disposition.

Suggested Audit Procedures

The auditor shall conduct the audit of Department agreements in accordance with Government Auditing Standards (GAGAS), published by the Comptroller General.

1. The auditor shall review the Department funding of the Community Agency to assure that the Major programs have been correctly identified.

2. The auditor shall review the agreement contract, the MAAP regulations and, if applicable, federal guidance for the requirements that apply to the activity of each Major agreement.
3. The auditor shall perform procedures to obtain an understanding of the internal control structure (both financial and administrative) over Department agreements sufficient to plan the audit to achieve a low assessed level of control risk for Major agreements.
4. The auditor shall document the understanding of the internal control structure over Major agreements.
5. The auditor shall plan the testing of the internal control structure over Major agreements to achieve a low assessed level of control risk for the assertions relevant to the compliance requirements for each Major agreement. The auditor shall perform testing of the internal control structure over Major agreements in accordance with GAGAS.

When the internal control structure over Major agreements is likely to be ineffective in preventing or detecting noncompliance, the planning and performing of testing described in paragraphs 3 and 5 above are not required. However, the auditor shall report a reportable condition or a material weakness as applicable.

2. STANDARD ADMINISTRATIVE PRACTICES

A. Compliance Requirement

The following sections of federal guidance and Department requirements must be tested as part of these standard audit compliance procedures.

1. OMB A-110/Common Rule:
 - (a) Financial and Program Management
 - (b) Property Standards
 - (c) Procurement Standards
 - (d) Reports and Records
 - (e) Termination and Enforcement

2. Additional Department Administrative Requirements
 - (a) Standards for Bonding
 - (b) Program Budget

Suggested Audit Procedures

1. The auditor shall review the provisions of A-110 or the Common Rule and determine those applicable to the agreement for Program Management, Property Standards, Procurement Standards, Reports and Records and Termination and Enforcement.
2. The auditor shall review the agreement for standards for bonding and for program budget.
3. Based on the reviews performed, the auditor shall perform tests to determine compliance with the standards for Program Management, Property Standards, Procurement Standards, Reports and Records and Termination and Enforcement as well as with standards for Bonding and for Program Budget as applicable.

3. ALLOWABLE COSTS/COST PRINCIPLES

A. Compliance Requirement (Direct & Indirect Costs)

Agreements funded by State and/or Federal pass-through funding must meet the requirements of OMB Circular A-122, OMB Circular A-87, or OMB Circular A-21 as applicable. The agreement may also require the additional compliance requirements identified MAAP regulations Section .04 B as "Additional Administrative Requirements" and as indicated on the Agreement Compliance Rider.

Suggested Audit Procedures

For transactions selected by the auditor specific to financial claims submitted to the Department verify that cost is:

1. Necessary and reasonable for the performance and administration of the Federal/State program.
2. Conform to any limitations or exclusions set forth in the cost principles contained in the Federal Circulars and Department Administrative Policies.

3. Conform to any limitations, exclusions, or allowed costs as set forth in the agreement.
4. Given consistent treatment between Federal/State and non-Federal/State activities.
5. Given consistent accounting treatment within and between accounting periods.
6. Determined in accordance with generally accepted accounting principles, unless specifically allowed in the agreement.
7. Not used as a cost or used to meet cost sharing requirements of other Federal/State supported activities.
8. Net of all applicable credits i.e. cash discounts, refunds, or rental income, etc.
9. Supported by underlying documentation i.e. payroll records, vendor invoices, approved purchase orders, etc.

B. Compliance Requirement (Indirect Cost)

The basis selected for allocating indirect costs must be consistent to the methods identified in Circular A-122, A-87, or A-21 as applicable. The method of allocation may be limited based on agreement restrictions. If so limited, the limitation should be noted as part of the agreement settlement method and not as an adaptation to the indirect cost method.

Suggested Audit Procedures

1. Review the method of allocation to determine if it is consistent with Circular A-122, A-87, or A-21.
2. Review financial claims to determine equitability of indirect cost allocation in relation to other programs and total agency.
3. Review the indirect cost pool to determine that only allowable OMB A-122, A-87 or A-21 or Department Administrative Policy cost are included prior to distribution.
4. Statistical data in the proposed allocation or rate bases are reasonable and updated as necessary.

5. Time studies or time and effort reports are mathematically and statistically accurate.
6. Review the agreement budget and settlement method to determine if limitations exist specific to the allocation of indirect costs.

4. BUDGET COMPLIANCE

A. Compliance Requirements

The Agency must request a budget revision whenever one or more of the following conditions occur (MAAP Rules Sec. 04.B.5):

1. The total expenses in any category (total personnel, total equipment, total subcontract, total all other) is exceeded by ten percent or \$1,000, whichever is greater; or
2. The total amount of revenue as detailed in the budget agreement, changes by more than 10 percent or \$5000, whichever is greater; or
3. Specific budgeted capital equipment items are substituted by other capital equipment; or
4. There are non budgeted line items in excess of \$1,000.

Suggested Audit Procedures

1. Review the agreement budget and compare to amounts on the SAO.
2. Determine if budget revisions were made as necessary

B. Compliance Requirement

The Agency must include all “available income” in the final financial claim to the Department in order to develop an equitable expense allocation among all available funding sources.

Suggested Audit Procedures

1. Review the agreement budget and compare to amounts on the final financial claim.
2. Determine if budget revisions were made as necessary.

5. TYPES OF SERVICES ALLOWED OR UNALLOWED

A. Compliance Requirement

Expenditures related only to services identified in the agreement award are allowable.

Suggested Audit Procedures

1. Review agreement award, Agreement Compliance Section
2. Test expenditures and related records

6. ELIGIBILITY

A. Compliance Requirement

Only clients who meet the eligibility requirements under provisions of the agreement are eligible for services. See Agreement Compliance Section for agreement specific conditions.

Suggested Audit Procedures

1. Sample client records and compare income documentation against allowable limits
2. Sample client records and determine whether there is documentation in the records for eligibility under "other-than-income" need determination (ex. homeless, pregnant, etc....).
3. Sample client records to determine that clients fall within specified age limits

7. MATCHING REQUIREMENTS

A. Compliance Requirement

The provider must include all match commitments as required.

Suggested Audit Procedures

1. Review agreement, Agreement Compliance Section
2. Determine if the match requirement identified in the agreement has been met

3. Determine if the match commitment is allowable under Circular A-110 and Common Rule.

8. REPORTING

A. Compliance Requirement (Cost Settled only).

The agency must submit financial, service and narrative reports as identified in the agreement award, including the Agreement Settlement Form (ASF).

Suggested Audit Procedures

1. Review agreement, Agreement Compliance Section
2. Obtain copies of reports and review source documents for accuracy of preparation.
3. Review date of submission

B. Compliance Requirement (Fee-for-Service only)

The agency must submit fee-for-service (unit delivery) reports as identified in the agreement award, including the Agreement Settlement Form (ASF).

Suggested Audit Procedures

1. Review agreement, Agreement Compliance Section
2. Obtain copies of fee for service reports and review source documents for accuracy of preparation.
3. Review date of submission

9. SUBRECIPIENT MONITORING

A. Compliance Requirement

Subrecipient awards must be prepared consistent to the agreement award.

Suggested Audit Procedures

1. Review agreement, Agreement Compliance Section
2. Obtain copy of subcontract.
3. Determine if subcontract identified both sources of funds and compliance requirements.
4. Review recipients procedures to determine if subrecipient has met all audit requirements.
5. Review recipient procedures to assure subrecipient compliance with laws and regulations.
6. Determine appropriate corrective action is taken within six months after receipt of the audit report in instances of material noncompliance.
7. Determine whether the subrecipient's audit necessitates adjustment to the community agency's own records and financial claims to the Department.

10. AGREEMENT SETTLEMENT

The Agreement Settlement Form (ASF) must be prepared in accordance with Department compliance and settlement requirements. The method of cost settlement shall be indicated in the standard agreement and a pro forma settlement document shall be included with the approved budget to identify the agreed upon method of settlement.

A. Compliance Requirement (Cost Settled only)

For all cost settled agreements administered by the Department, the agency must submit an ASF after the termination of the agreement. The claim must meet the terms, conditions, and settlement provisions of the agreement.

Suggested Audit Procedure

1. Review agreement, Agreement Compliance Section
2. Obtain a copy of the final claim and determine the date of submission
3. Review final claim to determine that the totals are based on books and records from which the financial statements have been prepared.

4. Review final cost settlement to determine that it has been made in accordance with the proper method as set forth in the contract.

B. Compliance Requirement (unit Fee-for-Service only)

The ASF submitted must be consistent to agreement terms, conditions, and settlement provisions.

Suggested Audit Procedures

1. Review agreement, Agreement Compliance Section
2. Obtain copies of service claims and determine date of submission.
3. Review service claims to determine that the totals are based on agency service records.
4. Test units claimed are allowable.

C. Compliance Requirement (Other Type only)

The ASF submitted must be consistent to agreement terms, conditions, and settlement provisions.

Suggested Audit Procedures

1. Review agreement, Agreement Compliance Section
2. Review applicable agency records to determine accuracy of reports submitted in accordance with specific requirements in the agreement.

11. SPECIAL PROVISIONS

A. Compliance Requirement

Any special compliance tests specifically identified in the agreement must be reviewed for adherence.

Suggested Audit Procedures

Review agreement, Agreement Compliance Section, and attached description of the compliance area and suggested audit procedures.

Appendix V. A.**INDEPENDENT AUDITOR'S REPORT ON
SCHEDULE OF AGREEMENT OPERATIONS**

To the Board of Directors
Sample Community Agency:

We have audited the special-purpose Schedule of Agreement Operations of Sample Community Agency as of June 30, 2005. This report is the responsibility of the Agency's management. Our responsibility is to express an opinion on this special-purpose report based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards (1994 Revision) issued by the Comptroller General of the United States, and the Maine Uniform Accounting and Auditing Practices Act for Community Agencies. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Agreement Operations is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule of Agreement Operations. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Schedule of Agreement Operations. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose Schedule of Agreement Operations was prepared for the purpose of complying with the Maine Uniform Accounting and Auditing Practices for Community Agencies. The schedule is a presentation of grant revenues, expenditures, and balances of Sample Community Agency's agreements with the Department, which is a comprehensive basis of accounting other than generally accepted accounting principles, and it is not intended to be a complete presentation of the organization's revenues and expenses.

In our opinion, the special purpose report referred to above presents fairly, in all material respects, the revenues, expenditures, and balances of Sample Community Agency's agreements with the Department as of June 30, 2005, in accordance with the Maine Uniform Accounting and Auditing Practices for Community Agencies.

This report is intended solely for the information and use of the board of directors and management of Sample Community Agency and the Department and should not be used for any other purpose.

Report Date

Appendix V. B.**INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL
STRUCTURE USED IN ADMINISTERING DEPARTMENT PROGRAMS**

To the Board of Directors
Sample Community Agency:

We have audited the financial statements of Sample Community Agency as of and for the year ended June 30, 2005, and have issued our report thereon dated (report date). We have also audited the compliance of Sample Community Agency with the requirements applicable to Department agreements and have issued our report thereon dated (report date).

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards (1994 Revision) and the Maine Uniform Accounting and Auditing Practices for Community Agencies (1996 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether Sample Community Agency complied with laws and regulations, noncompliance with which would be material to a Department award program.

In planning and performing our audits for the year ended June 30, 2005, we considered the internal control structure of Sample Community Agency, in order to determine our auditing procedures for the purpose of expressing our opinion on Sample Community Agency's financial statements and on its compliance with requirements applicable to Department agreements and to report on the internal control structure policies and procedures in accordance with the Maine Uniform Accounting and Auditing Practices for Community Agencies (1996 Revision). This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to Department agreements. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated (report date).

The management of Sample Community Agency is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are

to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that Department agreements are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For purposes of this report, we have classified the significant internal control structure policies and procedures used in administering Department agreements in the following categories:

LIST RELEVANT CATEGORIES

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the year ended June 30, 2005, Sample Community Agency expended XX% of its total Department awards under major Department agreements.

We performed tests of controls, as required by the Maine Uniform Accounting and Auditing Practices for Community Agencies (1996 Revision), to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to Department agreements which are identified in the accompanying Schedule of Agreement Operations. Our procedures were substantially less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Sample Community Agency's ability to administer Department agreements in accordance with applicable laws and regulations.

Reportable conditions are listed separately on an attached schedule.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a Department agreement may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering Department agreements would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that none of the reportable conditions identified in the accompanying schedule is a material weakness.

This report is intended for the information of the Board of Directors, management, and the Department. However, this report is a matter of public record, and its distribution is not limited.

Report Date

Appendix V. C.**INDEPENDENT AUDITOR'S COMBINED REPORT ON
COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO DEPARTMENT AGREEMENTS**

To the Board of Directors
Sample Community Agency

We have audited the financial statements of Sample Community Agency as of and for the year ended June 30, 2005, and have issued our report thereon dated (report date).

We have also audited Sample Community Agency's compliance with the specific requirements identified in the Contract Compliance Rider(s) of the Agency's agreement(s) with the State of Maine that are applicable to each of its major Department agreements, which are identified in the accompanying Schedule of Agreement Operations, for the year ended June 30, 19X6. The management of Sample Community Agency is responsible for the Agency's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1994 Revision) and the Maine Uniform Accounting and Auditing Practices for Community Agencies (1996 Revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Sample Community Agency's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, Sample Community Agency complied, in all material respects, with the specific requirements referred to in the second paragraph that are applicable to each of its major Department agreements, for the year ended June 30, 2005.

This report is intended for the information of the Board of Directors, management, and the Department. However, this report is a matter of public record and its distribution is not limited.

Report date

Appendix VI. A.**PROCEDURAL SUMMARY FOR COMMUNITY AGENCY**

1. Community agency determines federal share of total agreement revenues.
 - a. If federal audit under A-133 or A-128 is required, IPA is engaged for the required audit of federal funds.
 - b. If federal program-specific audit is selected, IPA is engaged to perform that level of service.
 - c. If no federal A-133 or A-128 audit is performed, the Community agency must assess the level of service required by an IPA to its entity-wide financial statements.
2. Community agency determines total agreement revenues for the year.
 - a. If less than \$25,000, no financial statements or SAO required.
 - b. If \$25,000 or more, entity-wide financial statements and SAO required.
3. Community agency must prepare a complete list of its agreement revenues for the fiscal year.
 - a. If total agreement revenues are \$25,000 to less than \$300,000, IPA is engaged to compile financial statements.
 - b. If total agreement revenues are \$300,000 or more, IPA is engaged to audit financial statements.
4. Community agency assesses whether the level of service performed by the IPA to meet federal audit requirements has also met the state requirement for an entity-wide financial statement presentation.
 - a. If met, the Community agency must then prepare SAO and ASF in accordance with 5 and 6 below.
 - b. If not met, Community agency must then determine the level of service to be done by an IPA to its entity-wide financial statements in accordance with the threshold levels in 3 above.

5. Community agency prepares Agreement Settlement Forms (ASF)
 - a. If agreement revenues are \$25,000 or more, IPA compiles all ASF for the fiscal year and issues compilation report thereon.
6. Community agency prepares Schedule of Agreement Operations (SAO)
 - a. If IPA compiles entity-wide financial statements, (or makes a Tier 1 option to have an entity-wide audit) the SAO are attached as supplemental schedules to the basic financial statements and the accountant's report indicates these schedules are also compiled.
 - b. If IPA audits the entity-wide financial statements, the IPA audits the SAO and reports separately on them with a Special Report, Report on Internal Control Structure and Report on Compliance.
7. Community agency submits the entity-wide financial statements, SAO, ASF and related IPA reports to the Department audit group within nine months after the fiscal year end for audits and four months after the fiscal year end for compilations.

Appendix VI. B.**PROCEDURAL SUMMARY FOR INDEPENDENT PUBLIC ACCOUNTANTS**

1. IPA prepares a list of State agreements and determines the following:
 - a. The revenues for each agreement (exclusive of deferred revenue),
 - b. The federal and state share of revenue in each agreement and,
 - c. The agreement revenues in total for the Community Agency.
 - (1) Based on the determination in (b) of the federal share of revenues, the IPA will follow the appropriate federal guidance for an audit of those funds.
 - (2) Based on the total revenues in (c) the IPA will determine whether the Community agency is in Tier 1 or Tier 2 and whether the level of service required is an entity-wide audit, compilation or review.
 - (3) Based on the revenues for each agreement in (a) the IPA will determine the major agreements to be tested for compliance and those non-major agreements to be included to meet the 50% rule.
2. IPA audits, reviews or compiles the entity-wide financial statements of the Community Agency and issues the appropriate report thereon.
 - a. If a federal Single Audit is required under OMB Circular A-128 or A-133, those requirements are followed for reporting and presentation.
 - b. If a federal Single Audit is not required, the financial statements are presented in accordance with generally accepted accounting principles or the accounting principles implemented by the Community Agency. Full disclosure is required.
3. IPA obtains copies of all ASF's for agreements closed during the Community Agency fiscal year and issues a compilation report with the accompanying ASF's. This report and ASF's are due to the Department within four months after fiscal year end for Tier 1 Community Agencies and within nine months after fiscal year end for Tier 2 Community Agencies.

4. IPA obtains the SAO's for all agreements in operation during the fiscal year and assures they are presented consistent to the budget or plan of service in the agreement.
 - a. For Tier 1 Community Agencies, the IPA compiles the SAO's for submission to the Department within four months after fiscal year end.
 - b. For Tier 2 Community Agencies, the IPA audits the SAO's, compliance tests major and non-major agreements as necessary, and issues an auditor's report on the SAO's, a report on compliance, a report on internal control structure and findings and questioned costs. These reports and SAO's are due to the Department within nine months after fiscal year end.

Appendix VI. C.**PROCEDURAL SUMMARY FOR DEPARTMENT
PROGRAM MANAGEMENT****1. Preparation of RFP for agreements with community agencies**

Department program management RFP all social services programs on a periodic basis. Therefore every year some services are subject to RFP.

2. Negotiating and awarding agreements with Community Agencies

Department program management generally utilize the following steps when negotiating and awarding agreements to community agencies.

- a. They develop an annual social services allocation plan for all funding sources and service areas are itemized by agreement.
- b. They prepare the agreement packages and send it to the community agencies. This generally includes:
 1. Program description - goals & objective
 2. Program budget and the boiler plate of agreement terms
 3. Agreement compliance requirements
- c. The community agencies then develop the draft agreement and submit it to the department.
- d. Department agreement officers then review community agency draft.
- e. Department agreement officers then negotiate specific issues of service delivery and/or cost (such as agreement pro forma) and revise the draft agreement as necessary.
- f. Department approved draft is then sent back to the community agency for review and signature.
- g. Department then performs the following internal procedures:
 1. Financial services secretary assigns agreement number.

2. Senior management review and sign the agreements.
 3. Copies of the agreement are made for the following parties: controller's office, state purchase review committee, and financial services division.
 4. Agreement is sent to division of purchases for review and encumbrance
- h. Department approved agreements are sent to the community agency.

3. Agreement fiscal and program monitoring

Department program management and agreement officers then perform the following duties:

- a. Authorize bills for payment.
- b. Review and monitor accuracy and completeness of financial reports.
- c. Review and monitor accuracy of service delivery reports.
- d. Complete budget revisions and amendments as necessary.
- e. Determine interim settlement of agreement.
- f. Conduct annual community agency site visits.
- g. Provide for final resolution of Tier 1 department examinations and reviews of Tier II audits.

Appendix VI. D.**PROCEDURAL SUMMARY FOR DEPARTMENT AUDITORS****1. Department agreement register and request for Community Agency financial statements**

Department auditors maintain a register of all agreements administered based on Community Agency fiscal year for audit planning and oversight purposes. Utilizing the agreement register, reminder letters are sent by the department to the Community Agency requesting their annual financial statements submission.

2. Community Agency financial statements submissions

Department auditors receive financial statements which are desk and or quality control reviewed for the following.

- a. To determine if submission is acceptable for Tier 1 of MAAP (less than \$300,000).
- b. To determine if submission is acceptable for Tier 2 of MAAP (greater than 300,000).
- c. To determine if submission is acceptable for federal audit purposes (A-128 and A-133 federal standards).

Any unacceptable statements due to material deficiencies which are not corrected by the Community Agency's IPA are returned by the department to the Community Agency citing the material deficiencies and requesting a corrective action plan. When the department audit division does not receive the Community Agency financial statements within the required time frame, it will result in a letter to department program management citing the non compliance and the need to consider possible sanctions.

3. Tier 1 financial statements - risk assessment and department examinations

Acceptable Tier I financial statements enter the Department risk pool. In assessing risk, Department auditors will consider the following: agreement funding, frequency of audit, history, results of desk review, etc.

- a. If low risk , annual financial statement submission may be closed out on a desk review basis.

- b. If high risk, annual financial statements are subject to further examination by department auditors. It may include requests for additional information by telephone or mail, such as the need for trial balances and or workpapers or it may include a field examination to perform account analysis and or internal accounting or administrative systems control review.

All Tier I agreements are subject to customary Department close out procedures.

4. Tier 2 financial statements -agreement close out

Acceptable Tier 2 financial statements including all federal audits are closed out through the agreement close out procedures cited below.

5. Agreement close out

Department auditors complete their Tier I and II reviews and examinations and agreements are fiscally closed out as necessary. A review of the Community Agency SAO (compiled and or audited) and ASF (compiled) is undertaken for the following purposes.

- a. To determine if there is a reconciliation between the Agency accounting records and SAO.
- b. To determine if SAO totals were reported on Part I of the ASF.
- c. To determine the accuracy of agreement claimed expenses on the ASF. This is done by reviewing the ASF for the following part I adjustments and part II cost sharing results.
 - 1. the agreed upon negotiated cost settlement terms (see contract pro forma).
 - 2. the Department examination or IPA audit results (compliance findings with questioned cost).
 - 3. the MAAP and federal circular income and cost policies (see MAAP section .04).
 - 4. the mathematical accuracy of the ASF for all parts.
- d. To reconcile agreement payments per Department records to amounts claimed as revenue by the agency.

- e. To prepare a recommended final fiscal disposition action for agreements received by the Community Agency for agreement and audit fiscal close out purposes as necessary.

6. Department communication releases(letters and reports)

The following communication releases occur as a result of the previous five steps.

- Step # 1 - Letter requesting financial statements.
- Step # 2 - Letter accepting or rejecting financial statements or letter citing material non compliance for non receipt of financial statements (sanctions) with federal and department regulations.
- Step #3 - Department examination reports on agency financial , compliance and internal controls.
- Step #4 and #5- Audit resolution summary and Exhibit A for Tier 2 audit and agreement close out purposes or status report if not completed within 270 days from receipt of IPA reports.

Appendix VII

LIST OF GUIDANCE RELEASES

OMB Circulars and Publications

1. **A-128**, *Audits of State and Local Governments*
2. **A-110**, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations, Issued November 29, 1993*
3. **A-87**, *Cost Principles for State and Local Governments*
4. **A-21**, *Cost Principles for Educational Institutions*
5. **A-122**, *Cost Principles for Non-Profit Organizations*
6. *Compliance Supplement for Single Audits of State and Local Governments, Revised September 1990*
7. **A-88**, *Indirect Cost Rates, Audit and Audit Follow-Up at Education Institutions*
8. *Questions and Answers on Single Provisions of OMB Circular A-128, Issued November 1987*
9. **A-133**, *Audits of Institutions of Higher Education and Other Non-Profit Institutions, Issued April 30, 1996*
10. *Compliance Supplement for Audits of Institutions of Higher Education and Other Non-Profit Institutions, Issued October 1991*

GAO Guidance

Government Auditing Standards (*Standards for Audits of Governmental Organizations, Programs, Activities and Functions*), Issued by the Comptroller General, June 1994

Other Governmental Guidance

1. Common Rule for Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments; Federal Agency Implementation of Common Rule
2. President's Council on Integrity and Efficiency (PCIE), *Position Statement No. 6*, Clarification and guidance to implement OMB Circular A-133.